

# **Investment Climate Report**

**Egypt** 

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#### INTRODUCTION

Egypt's 68-million strong domestic market, location close to major markets in Europe and the Gulf, and status as the political and cultural center of the Arab world make it a potentially attractive destination for foreign investors interested in production for both the local market and exports. Economic reforms undertaken since 1991 have opened almost all sectors of the economy to private business, including foreign investment. While American investment is overwhelmingly centered in the oil and gas sector, in recent years U.S. firms representing almost all sectors of the economy have launched operations in Egypt. However, continuing weaknesses in the business environment -- particularly in tariff/import procedures and overall bureaucratic red tape -- have kept the level of foreign investment well below Egypt's potential.

Annual foreign direct investment (FDI) averaged around USD 1 billion per year from the mid-1990s through 2000. It reached a peak of USD 1.6 billion in Egyptian fiscal year 1999/2000 (the fiscal year runs July-June). However, it fell to only \$509 million in FY 00/01 and around \$390 million through the first three quarters of FY 01/02 because of a slower Egyptian economy and investor perceptions of insufficient progress on economic reform. This downturn was exacerbated by the post-September 11 global economic slowdown. Inward portfolio investment, which hit a high of almost USD 1.5 billion net inflows in FY 1996/97, suffered in the wake of the Southeast Asia economic crisis. It has not recovered since, posting a net outflow in FY 1997/98 and 1998/99 and registering small inflows in FY 1999/00 and 2000/01 averaging USD 360 million. Portfolio investment (net) in the first three quarters of the FY 2001/02 (July 01-March 02) amounted to \$67.3 million.

U.S. firms are largely satisfied with the revenues generated from Egyptian investments and view the 68 million strong Egyptian domestic market as holding strong potential for long-term growth. However, they believe the full potential of the Egyptian market will only be met when the tax system is simplified, customs services are reformed, intellectual property protection is improved, and additional steps are taken to reduce the paperwork and bureaucracy related to local operations. According to the United States Department of Commerce, total U.S. direct investment in Egypt stood at \$3.068 billion at the end of 2001.

The petroleum and telecommunications/information technology sectors represent the most promising investment sectors in Egypt.

#### A1: OPENNESS TO FOREIGN INVESTMENT

Increased foreign investment continues to be at the heart of the Government of Egypt's (GOE) economic strategy for attaining and sustaining high economic growth rates. The General Authority for Free Zones and Investment (GAFI) has statutory responsibility for promoting and regulating foreign investment, but many other Ministries and supervisory

bodies also play a role in investments in their area of jurisdiction. Law 8 of 1997 and Law 3 of 1998 are the two key laws governing investment in Egypt. Foreign investors may own up to 100 percent of businesses within the scope of this legislation.

Investment Incentives and Guarantees Law 8 of 1997: Law 8 is designed to allocate investment to targeted economic sectors and to promote decentralization of industry from the crowded geographical area of the Nile Valley. The law and its executive regulations and amendments group together some 20 incentives. It allows 100 percent foreign ownership and guarantees the right to remit income earned in Egypt and to repatriate capital. Other key provisions include: guarantees against confiscation, sequestration and nationalization; the right to own land; the right to maintain foreign currency bank accounts; freedom from administrative attachment; the right to repatriate capital and profits; and equal treatment regardless of nationality.

Under Law 8, qualifying investments in various fields are assured approval, effectively creating a "positive list." These areas include land reclamation; fish, poultry and animal production; industry and mining; tourism (covering hotels, motels, tourist villages and transportation); maritime transportation; refrigerated transportation for agricultural products and processed food; air transportation and related services; housing; real estate development; oil production and related services; hospitals and medical centers that offer 10 percent of their services free of charge; water pumping stations; venture capital; computer software production; projects financed by the Social Fund for Development; and leasing.

Additional Incentives and Measures: Projects in the government-sponsored "Mega-Projects," including the Toshka and East Oweinat desert reclamation projects in the far southwest of Egypt and the East Port Said port/industrial development project, receive significant incentives. There are also eleven new industrial zones in satellite cities in the desert areas outside of Cairo and Alexandria and around the cities of Minya, Sohag and Beni Suef, which benefit from incentives.

Some projects still require prior approval from relevant ministries in addition to GAFI, including investments in the Sinai; all military products and related industries; and tobacco and tobacco products. Law 15 of 1963 prohibits foreign ownership of areas designated as agricultural lands (defined as agricultural land in the Nile Valley, Delta, and oases), except for desert reclamation projects.

Companies Law 3 of 1998: This measure applies to investments in sectors not covered by Law 8 of 1997, including shareholder, joint stock, and limited liability companies and representative and branch offices. Law 3 permits automatic company registration upon presentation of an application to the Companies Department (which became part of GAFI in 2002), with some exceptions. These exceptions include denials based upon noncompliance with procedures and laws, as well as insufficient qualifications to operate a business. Founders of joint stock and limited liability companies must submit a bank certificate to the Companies Authority showing that 10 percent of the company's issued capital has been paid in. The amendment also provides for the right to petition a denial of

incorporation; removes the requirement that at least 49 percent of shareholders be Egyptian; allows 100 percent foreign representation on the board of directors; and strengthens accounting standards.

Oil & Gas Exploration and Development are subject to different procedures, with an individual law required for each investment. Companies are initially granted exclusive rights to exploration in a concession. If commercial discoveries are found, a joint venture with the state-owned Egyptian General Petroleum Company (EGPC) is formed, based on a standard production-sharing agreement that is specified in the law for the concession. Performance standards include the drilling of at least one well in each phase (as defined by the agreement) of the exploration period.

**Privatization**: Egypt has an ongoing privatization program under Public Enterprise Law 203 of 1991 for the sale of several hundred wholly or partially state-owned enterprises. The Public Enterprise Office (PEO) within the Ministry of Public Enterprise (MPE) is responsible for advising on the sale of the Law 203 companies. The Ministry of Foreign Trade supervises the divestiture of the public share in joint venture (defined as mixed state and private ownership, whether foreign or domestic) companies and banks. The Ministry of Foreign Trade portfolio of public sector holdings includes majority stakes in 172 joint venture companies and minority stakes in 335 companies/banks. The law permits sales to foreign entities and allows majority foreign ownership of banks in Egypt. As of March 2002, 188 entities had been privatized since 1995, generating proceeds of LE 16.97 billion. However, only 13 Law 203 privatization transactions, with a total value of LE 1.1 billion, were carried out in 2001, compared to an average of 25-30 transactions worth LE 2.5-3.5 billion over the previous five years.

The slowdown in privatization since mid-2000 has created doubts in the minds of many investors about the government's commitment to the program. Senior officials, including the Minister of Public Enterprise, continue to emphasize Egypt's commitment to the program. The PEO has introduced alternative methods for privatization including asset unbundling and leasing with option to buy. Incentives for the sale of 66 companies that have been identified as distressed or loss makers were announced, including five-year tax exemptions and the removal of real estate value from the company's valuation.

Investors have generally identified valuation and commitment, as reflected in the pace of execution of deals, as two main obstacles facing privatization in Egypt. Law 203 was amended in 1998 to allow the general assemblies of holding companies to accept bids below the initial reserve price. Since that time, at least 10 transactions have been completed at prices below the initial valuation, but many investors still claim assets on offer are overvalued.

The privatization program has been broadened to include the services and utilities sectors with the government opening maritime, telecommunications, and infrastructure sectors to the private sector on a build-own-operate-transfer (BOOT) basis. The Government was expected to offer 20 percent of Telecom Egypt in the fourth quarter of 2000 but postponed the offering until market conditions are more favorable. A privatization plan

for the electricity sector is also developing. Foreign companies have won some major BOOT tenders in power generation and airport construction. In 2002, senior Government official implied a change in policy on future BOOT projects, saying projects that do not generate foreign exchange revenues should be financed in local currency and their services/output paid for in local currency. BOOT projects that require payment in foreign exchange must generate foreign exchange revenues.

Other key laws governing foreign investment include:

Capital Market Law 95 of 1992: Law 95 and its amendments and regulations govern the capital markets. In 1998 the government made significant amendments and changes to Law 95 to strengthen stock market regulations against fraud, price manipulation, and insider trading. Law 158 of 1998 allows bookkeepers and companies dealing in central depository instruments to dematerialize shares (i.e. replace physical entries for securities to book entries).

The Special Economic Zones law 83 of 2002 allows the establishment of new special zones for industrial, agricultural and services activities that are mainly export oriented. Firms operating in these zones will enjoy incentives and facilities to encourage increased local and foreign investment. (See Section E below)

**Banking Law 155 of 1998** permits private sector ownership of Egypt's four public sector banks. The GOE has yet to announce specific plans for the privatization of these four banks.

**Insurance Law 156 of 1998** amended law 91 of 1995. Law 156 removes the 49 percent ceiling on foreign ownership, permits privatization of national insurance companies, and abolishes the ban on foreign nationals serving as corporate officers.

Law 1 of 1998 amended Law 12 of 1964, the General Egyptian Maritime Organization Law. Law 1 permits the private sector, including foreign investors, to conduct most maritime transport activities, including loading, supplying, and ship repair.

Law 18 of 1998 amended Law 12 of 1996 to allow the government to sell minority shares of electricity distribution companies to private shareholders.

Law 19 of 1998 and Presidential Decree 101 of 1998 were issued to split the Arab Republic of Egypt National Telecommunications Organization (ARENTO) into a Telecom operator & service provider (Telecom Egypt) and Telecom Regulatory Authority (TRA). The TRA regulates Egypt's telecom sector and is the approving agency for all specifications (including spectrum management) of all new services in mobile, Internet, data and voice transmission networks. The government intended to offer up to 20 percent of Telecom Egypt for sale in late 2000, but postponed the offer until market conditions are friendlier.

**Tenders law 89 of 1998** amended the Tenders and Bidding Law 9 of 1983 governing foreign companies' bids on public tenders. It requires the government to consider both price and best value and to issue an explanation for a bid's refusal. However, the new tender law remains restrictive since an Egyptian domestic contractor is accorded priority if its bid does not exceed the lowest foreign bid by more than 15 percent.

Commercial Law 17 of 1999: This law has more than 700 articles covering: General Commerce, Commercial Contracts, Banking Transactions, Commercial Papers (including checks), and Bankruptcy.

# Restrictions on and Barriers to Foreign Investment

Explicit barriers/Prohibitions: The relatively few explicit prohibitions or restrictions on foreign investment are in the following areas:

- --Land/Real Estate: Foreign individual or corporate ownership of agricultural land (defined as traditional agricultural land in the Nile valley, Delta and Oases) is explicitly prohibited. Foreign individuals can own a maximum of two residences. Companies/Citizens of other Arab countries have customarily received Egyptian national treatment in this area.
- --Commercial Agents and Importation for Resale (i.e., Traders): These activities are explicitly limited to Egyptian nationals.

#### Informal and De-facto Restrictions

- --Banking/Insurance: The Central Bank has not issued a new commercial banking license in almost 20 years. In practice, the only way for a new bank, whether foreign or local, to enter the market (except as a representative office) is to purchase an existing bank. The same situation appears generally to be the case with the insurance system.
- --Other obstacles to investment and business include excessive bureaucracy; a shortage of skilled mid-level management; periodic shortfalls in credit facilities; slow and cumbersome customs procedures; and non-tariff trade barriers.
- --In addition, pharmaceutical prices remain controlled, although the government has decontrolled prices of other industrial products. The government uses a standard costplus formula to determine pharmaceutical prices for new-to-market products. These prices have not been changed to reflect the significant devaluation of the Egyptian currency over the past two years, sharply reducing the profitability of most pharmaceutical companies, which rely on imported inputs.

#### **A2: CONVERSION AND TRANSFER POLICIES**

**Repatriation of Profits and Capital**: Law 38 of 1994 and the executive regulations issued under ministerial decree 331 of 1994 regulate foreign exchange transactions in Egypt. The Government notes officially that the free market guides the rates of exchange set by the Central Bank of Egypt, other approved banks and dealers. In practice, the Central Bank actively has supervised the exchange rate regime to assure the Egyptian pound's stability.

Currently, the Egyptian Government has an exchange rate system with a "central rate" (currently LE 4.51/\$) set by the Central Bank of Egypt. The legally allowable trading band is 3 percent, making the maximum official rate LE 4.645/\$. The Egyptian pound has been devalued a cumulative 32 percent since mid-2000. Availability of foreign exchange through the banking system has become increasingly constrained over the past year. An illegal, but active parallel market rematerialized since late 2001 to meet the substantial gap between supply and demand at the official rate. In the first half of 2002, the parallel rate ranged from LE 5.05- 5.15/\$.

Egypt largely eliminated official foreign exchange transfer restrictions in 1991. The Foreign Currency Law 38 of 1994 further relaxed restrictions on capital transfers and emphasized the right of individuals and companies to transfer foreign exchange out of Egypt. Egyptian law allows individuals and businesses to conduct all normal foreign exchange transactions, including establishing foreign exchange accounts and transferring foreign exchange in and out of Egypt. Authorized banks may provide the full range of foreign exchange transactions, including accepting deposits, executing transfers and opening letters of credit. Law 38 maintains some restrictions on the transfer of real estate sales proceeds owned by foreigners, who are not residing in Egypt, requiring such proceeds to be transferred over a five-year period. Foreign currency is to be made available at banks and foreign exchange bureaus.

In practice, firms continue to report delays ranging from a few days to several months in the processing of their requests to convert Egyptian pounds to foreign currency for imports, loan repayment and other purposes. An increasing number must resort to the illegal parallel market. Repatriation of profits by foreign-owned companies generally has been affected much less, although occasional delays are reported.

The government has repeatedly emphasized its commitment to maintain the profit repatriation system to encourage foreign investors to invest in Egypt. In late 2000, procedures were streamlined to reduce the waiting period for repatriating funds from stock market operations to three days or less. On June 28, 2002, the Central Bank announced a new profit repatriation system for foreigners investing in the Egyptian stock market. Sub-custodian banks are now required to open two accounts for foreign investors (global custodians), a foreign currency account and a local currency one, which will be exclusively maintained for stock exchange transactions only. The two accounts will

serve as a channel through which foreign investors will process their sale, purchase, dividend collection and profit repatriation transactions using the official exchange rates. The new system is expected to decrease the settlement period to less than two days.

**Bilateral Investment Treaty**: The 1992 U.S.-Egypt Bilateral Investment Treaty provides for free transfer of dividends, royalties, compensation for expropriation, payments arising out of an investment dispute, contract payments, and proceeds from sales. Transfers are to be made in a "freely convertible currency at the prevailing market rate of exchange on the date of transfer with respect to spot transactions in the currency to be transferred".

**Worker Remittances**: Law 8 of 1997 stipulates that non-Egyptian employees hired by projects established under Law 8 are entitled to transfer their earnings abroad.

**Royalty Payments**: Conversion and transfer of royalty payments are permitted when a patent, trademark, or other licensing agreement has been approved under Law 8 of 1997.

#### **A3: EXPROPRIATION AND COMPENSATION**

As noted in section A1, Law 8 of 1997 provides guarantees against nationalization or confiscation of investment projects under the law's domain. The law further guarantees against seizure requisition, blocking, and placing under custody or sequestration. It also offers guarantees against full or partial expropriation of real estate and investment project property. The U.S.-Egypt Bilateral Investment Treaty, in force since 1992, also provides protection against expropriation.

## **A4: DISPUTE SETTLEMENT**

Egypt acceded to the International Convention for the Settlement of Investment Disputes in 1971. It is a member of the International Center for the Settlement of Investment Disputes (ICSID), which provides a framework for arbitration of investment disputes between the government of the host country and a foreign investor from another member state, provided that the parties agree to such arbitration. Without prejudice to Egyptian courts, Law 8 of 1997 recognizes the right of investors to settle disputes within the framework of bilateral agreements, the ICSID or through arbitration before the Regional Center for International Commercial Arbitration in Cairo. The U.S.-Egypt Bilateral Investment Treaty, in force since 1992, also provides for non-binding, third party arbitration in investment disputes.

Egypt's Dispute Settlement Law 27 of 1994 and its 1997 amendment provide a comprehensive framework for the arbitration of all domestic and international commercial disputes and limited challenges of arbitration award in court. Law 27 was

amended in 1997 to include disputes between public enterprises and the private sector. A special order is required to challenge an arbitration award and such orders are only granted if there is a strong case for successfully challenging the award. The law consolidated and streamlined various confusing and conflicting rules that left the enforcement of international and domestic awards in doubt.

Egypt adheres to the 1958 New York Convention on Enforcement of Arbitrary Awards; the 1965 Washington Convention on the Settlement of Investment Disputes between States and the Nationals of Other States; and the 1974 Convention on the Settlement of Investment Disputes between the Arab States and Nationals of Other States.

Investment disputes involving U.S. persons or companies do exist. Resolution of cases can involve lengthy court proceedings and negotiations.

## **A5: PERFORMANCE REQUIREMENTS AND INCENTIVES**

Performance requirements are not specified in Investment Law 8. The ability to fulfill local content requirements is no longer required to obtain an approval to set up an assembly project. However, assembly industries must meet a minimum local content requirement of 45 percent to benefit from customs tariff reductions on imported industrial inputs. Unlike earlier laws, Law 8 also does not put a floor for the percentage of Egyptians employed. However, the Labor Law (Law 137 of 1981) requires that foreign workers (aside from managers) account for no more than 10 percent of the workforce and 20 percent of the payroll. Workers also must "participate" in management, through representation on the Board of Directors (not required if a company is established under the Investment Law) and share in profits. A draft Labor law now before the parliament would change some of those provisions. Oil and gas exploration companies must drill at least one well in each phase of the exploration period specified in their agreement.

**Tax Incentives**: Under Law 8 of 1997, foreign companies enjoy various tax incentives. Law 8 provides a general tax exemption of five years for any project operating in one of the fields covered by the law. Specific incentives of 10 years are granted to projects in new industrial zones, certain urban communities, remote areas and Social Fund for Development projects. Tax exemptions of 20 years are granted to projects outside the Cairo area. All investment projects are granted exemptions from notarization and notification fees; payment of inheritance tax on 25 percent of heir's share in invested capital; and income tax on a portion of dividends after the exemptions expire.

Companies covered under Law 3 of 1998 can benefit from incentives (notably tax holidays) offered for investments in designated areas set forth in the Communities Law and have access to subsidized fuel and power. In addition, companies on the Commercial Register that have more than 50 employees are eligible for a five-year tax holiday.

**Pricing and Customs Preferences**: The Egyptian government may not intervene to set the prices or profits of companies established under Law 8 except for pharmaceuticals, as

noted above. Per Ministry of Finance decree, machinery and equipment imported for projects operating under Law 8 is assessed a flat 5 percent tariff rate.

Geographical Areas: There are no formal legal geographical restrictions on investments. However, the heavy congestion in Cairo often prompts government officials to deny approval for investments in Cairo unless an economic rationale exists. Upon request, however, government officials will assist investors in locating a site for the project, for example, in one of the newer industrial sites located outside Cairo and will sometimes provide necessary infrastructure. In addition to new areas surrounding Cairo, the government has targeted Upper Egypt (Upper Egypt refers to governorates in southern Egypt) for development by private investors. Land in the southern industrial zones is offered free-of-charge. The Government will provide hook-ups to infrastructure (water, sewer, electricity, and gas) and transfer land titles to the developer three years after project startup.

**R&D Projects**: There are no large-scale R&D activities in Egypt. The majority of government-funded R&D programs are in the fields of agricultural, health, and to a lesser extent, in the manufacturing sector. There is no discrimination against U.S. and other foreign firms wishing to participate in R&D programs in Egypt. Most Egyptian R&D programs are established by government initiative to target specific problems and opportunities. Despite the fact that the Egyptian Government has a separate ministry for Science and Technology, the percentage of the government budget dedicated to S&T spending is low. Government spending on S&T during the five-year plan period 1997-2002 reached only 0.6% of GDP doubling from 0.3% in the preceding five year plan 1992-1997. Donor support for R&D is relatively small, but plays an important role.

**Export and Import Policies**: The list of goods requiring prior approval before importation was eliminated in 1993. The ban on whole poultry was lifted in July 1997, replaced by an 80 percent tariff. An effective ban on imports of poultry parts remains in place. On January 1, 1998, the import ban on fabrics was lifted, also replaced by a tariff. The ban on ready-made clothing imports was scheduled to be lifted in January 2002 according to WTO obligations. On January 1, 2002, new specific rate duties (i.e., per piece rather than ad valorem) were imposed on over 1000 categories of clothing. In many cases, the specific rate duties were equivalent to percentage tariffs far higher than Egypt's WTO tariff bindings, which are less than 50 percent.

Ministerial Decrees 577 and 580 of 1999 require cars to be imported in the year of production. Ministerial Decree 619 of 1998 required imports to be accompanied by a certification of origin and stipulated that consumer goods (durable and non-durable) be shipped directly from the country of origin. Decree 619 subsequently was adjusted in late 1999 to allow the shipment of imported consumer goods from the main branches of the producing company and its distribution centers. Regulations also were implemented to facilitate the ability of firms to meet the requirement for a certificate of origin. This requirement can now be fulfilled with a company invoice noting the country of origin and bearing the endorsement of an Egyptian overseas commercial office. Since May 1999,

the Central Bank of Egypt has required 100 percent coverage for credit lines opened for goods imported by traders for resale purposes.

Product specification also can be a barrier to trade. For example, the Ministry of Health requires that beef imported for direct human consumption have a maximum 7 percent fat content limit, a level virtually never reached in premium beef exports. Ministerial Decree 1 of 1998 sets textile-labeling requirements that are very difficult to meet.

Some items are inspected for quality control prior to admittance into Egypt. The Government stresses that standards applied to imports are the same as for domestically produced goods, but in practice, imports are subject to different inspection tests by agencies from a number of ministries. Most tariffs range between 5-40 percent, with numerous exorbitant tariff spikes for "luxury goods" (including most automobiles, tobacco, alcoholic beverages, and clothing, as mentioned above).

Egypt sets the shelf life of processed foods by regulation, as opposed to the standard international practice of allowing producers to determine the life of their product. By Government decree, products (mainly food) entering Egyptian ports must have 50 percent or more of their shelf life remaining. Egyptian shelf life standards ignore quality differences between producers and are often established without scientific basis. Moreover, Egypt applies shelf life standards to certain non-food imports such as syringes and catheters.

The import process remains cumbersome despite a 1999 Presidential decree consolidating many import inspection offices under one entity. Imported refrigerated containers of foodstuffs typically take 25 days to clear customs. Two-month delays, or longer, are not uncommon.

Export subsidies do not exist, and the Government does not impose export performance requirements. Exporting industries, including investment Law 8 projects, must pay the full customs rate on imported inputs and later receive a rebate of part of the tariff duty when they export the finished product. Businessmen report lengthy delays in the rebate process. Animal hides and scrap metals (except stainless steel) are the only items banned from export. The import-export paperwork process has been greatly simplified from past Egyptian practice, but several days are still needed for processing.

In June 2002, the parliament approved a new Export Promotion Law. The law restates the authority of the Ministry of Foreign Trade's General Organization for Import and Export Control (GOIEC) over import inspection procedures. It also intends to improve the customs rebate system for exporters by establishing a central unit, under the joint supervision of the Ministries of Finance and Foreign Trade, to oversee the system. It establishes an "export promotion fund," but the specific activities of the fund are not stated. It is not clear whether it would subsidize exports. Implementing regulations that might clarify the new law's provisions have not yet been issued.

#### A6: RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

By law, private Egyptian firms have the right to establish and own business enterprises and engage in all forms of remunerative activity, except for the restrictions on foreign business mentioned above. In practice, private firms sometimes find themselves at a disadvantage when competing for resources with state owned firms. For example, state-owned firms often have easier access to bank credit and foreign exchange from the state-dominated banking system than do private firms, whether domestic or foreign.

## A7: PROTECTION OF PROPERTY RIGHTS

The Egyptian legal system provides protection for real and personal property, but laws on real estate ownership are complex and titles to real property may be difficult to establish and trace. The government is moving slowly to modernize the laws on real estate ownership and tenancy. In 1997 the GOE passed legislation eliminating price controls on commercial space following enactment of a similar law pertaining to agricultural land leases in 1996.

The mortgage facility in Egypt is underdeveloped. In June 2001 the People's Assembly passed the Real Estate Mortgage law number 148 for 2001. The law allows both banks and non-bank mortgage companies to issue mortgages and provides, for the first time under Egyptian law, clear procedures for foreclosure on property of defaulting debtors.

In May 2002 the Egyptian parliament approved amendments to the Banks and Credit law that facilitate mortgage activities in banks and lower mortgage registration fees. A General Authority for Real Estate Mortgage Affairs is being established under the supervision of the Ministry of Housing to regulate real estate mortgages in Egypt. It is too early to tell how well this law will address some of the existing problems.

Intellectual Property Rights (IPR): Egypt is a signatory to the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, the Bern Copyright Convention, the Paris Patent Convention, the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the classification of goods and services. Prior to 2002, Egypt's protection of intellectual property rights was well below international standards, particularly its commitments under TRIPS. Due to a lack of progress in patent protection and in the enforcement of copyright protection, the United States Trade Representative placed Egypt on the "priority watch list" in April 1998, and has retained this designation since.

In May 2002, the Egyptian Government passed a comprehensive IPR law drafted with the intention of bringing Egypt into line with its TRIPS obligations. The new law covers patents, copyrights, trademarks, plant varieties, industrial designs and semiconductor chip

layout design. The executive regulations for the new law should be issued by fall 2002. The following paragraphs summarize the law's provisions on different types of IPR.

**Patents**: The law increases the protection period for a patent term to 20 years, and for pharmaceuticals includes provisions on data exclusivity and exclusive marketing rights which had been adopted by Prime Ministerial decree in 2000. The Government of Egypt has elected to be treated as a Developing Country for pharmaceuticals and chemicals under the TRIPS Agreement, giving it until January 1, 2005 to comply fully with TRIPS provisions for these products.

**Copyrights**: The new law offers copyright protection to artistic and literary works, computer programs, and audio-visual works. Books and computer programs are provided protection for the author's lifetime plus 50-70 years. Sound recordings are granted 50 years protection from the recording date. The specified penalty for copyright violations is a fine of LE 5,000-10,000 per infringement or a prison term of not less than one month, or both.

Copyright enforcement remains erratic and inadequate. A bright spot is business software. According to a report prepared for the Business Software Alliance, pirated software decreased from 75 percent of all software used in Egypt in 1999 to 56 percent in 2000 and 53 percent in 2001. Some improvements have been made in copyright protection for films and music, but the existence of false licenses remains a problem for legitimate distributors. This improvement does not extend to entertainment software (computer games), for which the piracy rate is still estimated at 90 percent.

**Trademarks**: The new IPR law offers trademark protection of ten years, in accordance with the Trademark Law Treaty. Penalties have increased to a maximum of 20,000 Egyptian pounds or an imprisonment of not less than two months or both.

**Semiconductor Chip Layout Design**: The new law incorporates a chapter for protecting semiconductor chip layout design. Previously there was no legislation protecting semiconductor chip layout design, although Egypt had signed the Washington Semiconductor Convention.

**U.S. Support for Intellectual Property Rights Protection**: The U.S. provides significant support for Egyptian efforts to implement TRIPS-consistent intellectual property protection. USAID programs include the "Technical Assistance for Intellectual Property Rights in Egypt" (TIPRE) project and the USAID-funded, U.S. Commerce Department-administered "Commercial Law Development Program" (CLDP). USAID has begun implementing a substantial trade-related technical assistance program for the Ministry of Foreign Trade. USAID also has developed a trade capacity building training program for Egyptian diplomats, including a module on IPR.

#### A8: TRANSPARENCY OF THE REGULATORY SYSTEM

The streamlining of Egyptian investment procedures during recent years, as outlined in other sections of this report, represents constructive steps towards improving Egypt's business environment. However, there is still considerable room for improvement. Significant obstacles continue to hinder private sector investment in Egypt. They include the often-arbitrary imposition of bureaucratic impediments and the length of time that must be spent resolving them. Import clearance remains difficult, as several ministries have overlapping regulatory authority. In addition, quality control is a major issue for importers. Enforcement of health and safety regulations is uneven, and enforcement is complicated by a multiplicity of laws, agencies, and opinions. For example, at least four ministries regulate the operation of restaurants. Likewise, several Ministries and agencies are responsibility for inspection of imports, although the new export promotion law (cited above) may help to simplify those procedures. Egypt's accounting standards are still not fully consistent with international norms, although government efforts are moving in that direction.

The government passed Law 89 in 1998 as an amendment to the Tenders and Bidding Law 9 of 1983 to improve equality and transparency in government procurement. Key provisions of the law include: a prohibition on re-opening negotiations after final bids have been received; more transparency in the criteria for bid acceptance and rejection; equality among bidders, contractors and government agencies; more weight given to the technical aspects of a tender or bid; protection of contractor rights; reduction of insurance fees; immediate return of deposits once the government announces bid or tender results; and the establishment of a Central Office for Complaint Resolution in the Ministry of Finance.

#### A9: EFFICIENCY OF CAPITAL MARKETS AND PORTFOLIO INVESTMENT

At the start of the 1990's, Egypt's financial sector consisted almost exclusively of banks and insurance companies (both overwhelmingly dominated by state-owned institutions) and there were virtually no avenues for financing of investment except for commercial bank credit, family resources, or retained earnings. The picture has changed significantly since that time with the development of modern stock market institutions, the beginning of domestic and international bond issuance, and the erosion of state dominance in the banking and insurance fields through the entry of competitive local and foreign institutions.

The Egyptian banking sector had total assets of LE 474 billion (just over USD 100 billion) at the end of June 2001. Four state-owned banks (National Bank of Egypt, Bank Misr, Banque du Caire and Bank of Alexandria) accounted for 53.5 percent of total assets, down from 65-70 percent in the early 1990's. However, these banks are

substantially less profitable than the largest private banks because their portfolios include many loans made to less profitable state-owned enterprises. Apart from those loans, credit in the banking system is generally allocated on market principles and interest rates are market-determined. Officially non-performing loans are about 15 percent of all credit assets, but other estimates put it at 18-20 percent. Foreign investors have equal opportunity access to bank credit.

**Banking Laws**: Banking Law 155 of 1998 set the legal basis for the privatization of the four public sector banks. Laws passed in 1992 and 1993 allow foreign bank branches to deal in Egyptian currency. Foreign banks are guaranteed national treatment. The government requires banks to follow systems of loan classification and provisioning. Since 1997 the Central Bank of Egypt (CBE) has required banks to apply international accounting standards (IAS) and to publish an annual financial report based on IAS.

**Mortgage Law 148 for 2001** provides the regulatory framework for issuance of mortgages by bank and non-bank institutions and regulates the securitization of mortgages with a potential for increasing trading activity in the stock market.

Leasing Law 95 of 1995: Law 95 allows for the leasing of capital assets and real estate. It is designed to reduce the high start-up costs faced by new investors. Notably, the law specifically allows for the purchase of real estate assets through leasing mechanisms. The Leasing law was amended in 2001 to make leasing more attractive for investors. The amendments include exempting financial leasing activities from the sales tax and fees, specifying financial standards that leasing companies must adhere to increasing control, organization and efficiency of the leasing activities and incorporating clear guarantees to the parties involved to encourage investments.

The Capital Market Law 95 of 1992 grants foreign investors full access to capital markets. It and the Banking Laws of 1992 and 1993 constitute the primary regulatory framework for the financial sector. The law permits the establishment of Egyptian and foreign companies that provide underwriting of subscriptions, brokerage services, securities and mutual funds management, clearance and settlement of security transactions, and venture capital activities.

Law 95 also authorizes the issuance of corporate bonds and bearer shares, and makes income from most stocks and bonds non-taxable. It established mechanisms for arbitration and legal dispute resolution and prohibited unfair market practices. Law 95 empowered the Capital Market Authority (CMA) to be an independent supervisor of the securities industry.

In 1998, the CMA instructed listed companies to adopt international accounting and auditing standards, and ruled that directors of securities firms must fulfill expertise requirements. The CMA and the Cairo and Alexandria Stock Exchange (CASE) regularly publish reports on trading and market conditions. The Central Registration and Depository law and its executive regulations have been issued. This law aims at easing and regulating the registration and deposit of securities.

As of April 2002, the market capitalization of the Cairo and Alexandria Stock Exchange (CASE) was approximately LE 118 billion, with 1110 companies listed. Trading volume in 2001 was 1188 million shares while trading value for 2001 was LE 24.764 billion.

European and U.S. mutual funds now include Egyptian stocks, and 54 local issues are included in the International Finance Corporation's general index. Nine Egyptian companies are traded on the London Stock Exchange.

The Capital Market Authority (CMA) approved in June 2002 the establishment of the first mutual fund authorized to discount commercial bills which will assist financial institutions, including banks, access increased liquidity and activate trading in the stock market. The discounting activity was recently added to the activities included in the Investment Incentives law number 8.

Egypt was included in the Morgan Stanley Emerging Market Free Index (EMFI) effective May 31, 2001 constituting 0.28 percent of the EMFI capitalization based on the new company selection criteria. There were initially 14 Egyptian companies in the Index with a total capitalization of USD 2.53 billion, representing 0.015 percent of the Morgan Stanley All Country World Index (MSCI ACWI).

The government continues to introduce measures to bring the market closer to international standards. Companies listed on the CASE are required to apply international accounting and disclosure standards. Stocks are de-listed from the exchange if not traded for six months. Settlement of transactions now takes three days, a significant improvement over the eleven days needed two years ago. USAID/Cairo is working with Egyptian government authorities and the CASE in an ambitious USD 32 million technical assistance program for the development of the Egyptian capital market. The project is working in four major areas: legal and regulatory reform, automation, institutional development and debt market development and is expected to end in August 2003.

There are no restrictions on foreign investment in the stock exchange. Although Egyptian law and regulations allow companies to adopt by-laws limiting or prohibiting foreign ownership of shares, only one company listed on the stock exchange has such restrictions. A significant number of the companies listed on the exchange are family-owned or dominated conglomerates, and free trading of shares in many of these ventures, while increasing, remains limited. Fewer than 10 percent of the companies listed on the exchange are actively traded.

Development of the government and corporate bond market has lagged behind the equity market but changes are being introduced to encourage bond trading. Since 1994 there have been at least 33 issues of corporate and 8 issues of medium-term government bonds. Treasury bonds are traded on the stock market. The GOE has allowed financial institutions to deal in bonds for their accounts provided they maintain a minimum capital of LE 10 million.

In May 2002 the Minister of Finance issued decree number 480 of 2002 establishing the Primary Dealers System, which is expected to come into effect in September 2002. The new system, which is being established with the assistance of the USAID Capital Market project, allows financial institutions, including banks and bond dealers, listed at the Ministry of Finance to underwrite primary issues of government securities and activate trading in the secondary market through sale, purchase and repurchase agreements of government securities.

In June 2002 the CBE announced a new profit repatriation system whereby Subcustodian banks are required to open two accounts for foreign investors (global custodians), a foreign currency account and a local currency one, which will be exclusively maintained for stock exchange transactions only. The two accounts will serve as a channel through which foreign investors will process their sale, purchase, dividend collection and profit repatriation transactions using the official exchange rates.

#### **A10: POLITICAL VIOLENCE**

There have been no terrorist attacks directed at foreigners since 1997 attacks in Luxor and Cairo. Following the 1997 incidents, Egyptian officials enhanced security at airports, hotels and tourist sites throughout the country. Effective police operations in recent years and the heightened security posture throughout the country have made it more difficult for extremist groups to conduct operations. However, the threat has not been eliminated. As elsewhere, particularly since 9/11, the U.S. Embassy periodically receives information concerning extremists' intentions. All Americans are urged to be vigilant and exercise good security practices while in Egypt.

In October 2000 and again in April 2002, following the escalation of violence in Israel and the Palestinian territories, there were a few isolated instances of demonstrators inflicting minor damage on American-branded fast food restaurants and shops. The Egyptian Government has reiterated its interest in foreign investment and its opposition to any boycott of U.S. investors.

# A11: CORRUPTION

Corruption in Egypt is considered a criminal act. Two agencies under the authority of the Cabinet of Ministers--the Administrative Control Authority (ACA) and the Illicit Gain Office (IGO)--oversee enforcement of corruption laws in the public sector. In the private sector, there are two types of corruption cases. Commercial disputes are subject to international commercial law and Law 27 of 1994. The district attorney's office and the civil courts adjudicate civil cases. The ACA and IGO may intervene when corruption occurs in the private sector if public money and the public interest are involved. Egypt is not a signatory of the OECD Convention on Combating Bribery. While U.S. firms

occasionally report corruption by lower-level government officials, they do not identify corruption as a major obstacle to foreign investment. Transparency International ranked Egypt 54th out of 91 developed and developing countries in its 2001 Survey on perceptions of corruption.

Two-high profile corruption trials in early 2002 resulted in conviction and jail sentences for several former government officials, including a former Minister of Finance, former head of the Customs Authority, and former Governor of Giza Province.

# B: BILATERAL INVESTMENT AGREEMENTS & REGIONAL COOPERATION

In 1992 the U.S. and Egypt signed a Bilateral Investment Treaty. The treaty provides for fair, equitable, and non-discriminatory treatment for investors of both nations. The treaty includes provisions for international legal standards on expropriation and compensation; free financial transfers; and procedures for the settlement of investment disputes, including international arbitration.

Egypt has signed investment agreements with over 40 countries, including the U.S., Germany, the United Kingdom, Sweden, Switzerland, Japan, the Netherlands, Belgium, Luxembourg, France, Italy, Greece, Finland, Romania, Sudan, Morocco, Thailand, China, Tunisia, Armenia, Libya, and Singapore.

In addition to investment agreements per se, Egypt is a signatory to a wide variety of agreements covering trade issues. Egypt and the U.S. signed on July 1, 1999, a Trade and Investment Framework Agreement (TIFA). The TIFA is a step toward creating freer trade and increasing investment flows between the U.S. and Egypt. Egypt signed an Association Agreement with the European Union on June 25, 2001, but the agreement must be ratified by all EU member states and has not yet come into force. In January 1998, Egypt began implementing agreements reached with 11 Arab League members in connection with the Arab Common Market treaty of the 1960's. These agreements call for phasing out existing tariffs over a 10-year period. Egypt joined the Common Market for Eastern and Southern Africa (COMESA) in June 1998.

Further information on Egypt's investment and trade regimes can be found in the National Trade Estimate Report on Foreign Trade Barriers produced by the U.S. Trade Representative.

#### C: OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

Egypt and OPIC signed in July 1999 an updated investment agreement to facilitate the ability of the agency to provide political risk insurance for U.S. private investment as well as for bid, performance, advance payment, and customs bonds and guarantees issued

on behalf of U.S. suppliers and contractors in Egypt. The U.S. Embassy and the U.S. institutions in Egypt, including USAID, purchase in excess of USD 200 million annually. US Government agencies exchange money at commercial rates offered through local banks. The Egyptian pound depreciated by approximately 32 percent in pound terms visà-vis the dollar from mid-2000 to January 2002.

Egypt is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

#### D: LABOR

Egypt's labor force has grown steadily in recent years, with upwards of 500,000 new entrants into the labor market each year. As of January 2002, official statistics put the labor force at 19.666 million, of which 5 million (27 percent) are civil servants and public sector employees, 3.5 million (19 percent) work in the formal private sector, and 10 million (54 percent) are in the informal sector. Official statistics estimate unemployment in the fiscal year 2001/2002 at 9 percent of the total labor force. Unofficial estimates range between 12 and 20 percent.

According to foreign investors, certain aspects of the current labor law constitute significant business impediments, particularly the difficulty of dismissing employees. The government's labor policy is widely viewed as outdated: workers are not legally allowed to strike; workers remain unfamiliar with the dynamics of market-based economies; and qualified specialists are in short supply. The privatization program generally requires a company's new owner to retain all workers. The government has used privatization proceeds to offer early retirement and/or other separation incentives packages to workers in some privatized companies. Foreign companies frequently pay higher wages to attract workers with higher than average skills. Millions of Egyptians traditionally have sought employment abroad on both a temporary and permanent basis.

Workers may join trade unions but are not required to do so. A union local, or workers' committee, may be formed if 50 employees express a desire to organize. Most union members, about 27 percent of the labor force, are employed by state-owned enterprises. All trade unions are required to belong to the Egyptian Trade Union Federation (ETUF). The International Labor Organization's Committee of Experts repeatedly has emphasized that a law requiring all trade unions to belong to a single federation infringes on the freedom of association, but the government has not changed the law. The current labor laws do not adequately provide statutory authorization for the rights to strike and to engage in collective bargaining. Even though the right to strike is not provided, strikes occur. The government considers strikes a form of public disturbance and hence illegal. Unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector.

The Ministry of Labor sets worker health and safety standards, which also apply in the export processing zones, but enforcement and inspection are uneven. The law prohibits employers from maintaining hazardous working conditions, and workers have the right to remove themselves from hazardous conditions without risking loss of employment.

In April 2002 Egypt ratified the International Labor Organization (ILO) Convention 182 on combating the worst forms of child labor and was chosen by the ILO as the regional base to launch the first international report on child labor under the auspices of the Egyptian First Lady.

A long-delayed draft labor law that would give both employees and employers more rights is now being considered by the People's Assembly. The law is expected to differ radically from the current law allowing, among other things, collective bargaining, freedom of association and pre-notified strikes by employees while giving employers the right to fire employees.

The People's Assembly also passed an Emergency Subsidy Fund law on June 16. The Fund will compensate workers/employees whose wages are suspended due to partial or complete closure of their firm or due to its downsizing. According to press reports, the Fund's resources will come from a 1 percent deduction from the base salaries of public, public enterprise and private sector employees in firms with over 30 workers), a government contribution and other donations. No further details on implementation were available at the time this report was completed.

## E: FOREIGN TRADE ZONES AND PORTS

Egypt had seven active free zones in Nasr City (near Cairo Airport), Alexandria, Damietta, Ismailia, Six of October, Suez and Port Said. New extensions are being added to Damietta and new zones are planned in North Sinai and the Red Sea. In January 2002, the Government announced that Port Said's duty free status will be phased out over a five-year period.

Free zones are established by a decree by the Council of Ministers. They are subject to Investment Law 8 and are open to investment in any sector. Companies producing largely for export (normally 80 percent or more of total production) may be established in the free zones and operate in foreign currency. Foreign investors have equal rights to operate in free zones.

Companies operating in free zones are exempted from customs duties, sales taxes or taxes and fees on capital assets and intermediate goods. However, warehouse companies are subject to an annual fee of 1 percent on the imported product's value, and production and assembly profits are subject to an annual fee of 1 percent on the exported product's value.

Concession agreements in such areas as petroleum, natural gas and mineral exploration and exploitation, although not explicitly covered by Investment Law 8, receive many of the privileges of free zone ventures. Concession agreements must be negotiated separately with the GOE and are subject to legislative approval.

The People's Assembly approved May 29 the Special Economic Zones (SEZ) Law number 83 for 2002. This law allows the establishment of special zones for industrial, agricultural or service activities that are designed specifically with the export market in mind. The law allows firms operating in these zones to import capital equipment, raw materials, and intermediate goods duty free. Companies established in the new zones also will be subject to lower corporate taxes and exempt from sales and indirect taxes, operate under more flexible labor regulations, and enjoy other incentives. As with the other new laws passed in 2002, the executive regulations that will clarify details have not yet been published.

#### F: FOREIGN DIRECT INVESTMENT STATISTICS

Measurements of foreign direct investment (FDI) in Egypt vary according to the source and the definitions employed to calculate the figure. The Ministry of Petroleum keeps statistics on investment in the oil and gas sector while the General Authority on Investment and Free Zones (GAFI) keeps statistics on all other investment.

In April 2002, the Prime Minister issued a decree merging the Companies' Authority to GAFI, which may result in some changes in the latter's investment statistics. GAFI's figures are calculated in Egyptian pounds at the historical value and rate of exchange. They are cumulative figures with 1971 as the start date, coinciding with the first investment law known as law 43 of 1971 for Arab investment. Law 230 of 1977 for Arab and foreign investment replaced the former law. Law 8 of 1997 finally replaced Law 230.

GAFI statistics, as of June 30, 2001, show that U.S. investors had FDI in 253 companies, with a total investment of LE 2070 million. The United States ranked second after the UK, which had an FDI share in 221 companies with a total value of LE 3430 million.

In late 2001, the Ministry of Petroleum stated that the total investment in the petroleum sector over the last twenty years was USD 37.2 billion, with FDI accounting for 70 percent of the total and public sector investment for the remainder. It is not clear whether this figure also includes operating expenses. The Minister also said total investment in the petroleum sector in FY2000/2001 was more than USD 1.8 billion. Based on information about foreign direct investment flows in recent years, Embassy estimates total foreign direct investment in Egypt to be USD 10-15 billion.

Following the merger of AMOCO and BP, the United Kingdom became the largest foreign investor in Egypt, followed by the U.S. Other major investing countries include France, Italy, and Arab countries. The U.S. Department of Commerce calculated the

stock of U.S. FDI as of end of 2001 at USD 3.068 billion. In addition to their major role in the energy sector, U.S. firms are active in banking and in a wide range of manufacturing industries, producing goods for the domestic and export markets. Examples of U.S. investors include American Express, Citibank, Coca Cola, Ralston Purina, Eveready, General Motors, Johnson and Johnson, Procter and Gamble, Pfizer, H.J. Heinz, Gillette, American Standard, Bristol-Myers Squibb, PepsiCo, Pioneer, and Xerox.

Some examples of other major investors include:

United Kingdom	France	Italy
British Petroleum	Accor	ENI
British Gas	Peugeot	AGIP
Shell	France Telecom	
Glaxo	Alcatel	
Cadbury		
HSBC		
Barclays		

# **INVESTMENT STATISTICS\***

(Billion USD)

	98/99	99/00	00/01	01/02
Foreign Direct Investment (flow)	0.711	1.656	0.509	0.388
Portfolio Investment (flow)	(0.174)	0.473	0.260	0.067
US FDI (stock)	1.963	2.190	2.735	3.068

<sup>\*</sup>Egypt figures for fiscal year (July-June), FY01/02 cover only 3 quarters US figures for calendar year

Source: Central Bank of Egypt, US. Department of Commerce

# US DIRECT INVESTMENT IN THE NEAR EAST & NORTH AFRICA

(in millions of US dollars)

	1997	1998	1999	2000	2001
Algeria	1,890	3,330	1,923	2,333	2,484
Bahrain	-186	-200	-12	-137	-128
Egypt	1,603	1,963	1,990	2,344	3,068
Israel	2,071	2,837	3,931	3,386	4,122
Jordan	D	D	29	21	14
Kuwait	-60	111	257	406	764
Libya	120	60	65	104	123
Lebanon	24	45	80	79	78
Morocco	83	77	31	36	55
Oman	75	80	83	71	47
Qatar	1,088	1,399	1,499	1,674	1,977
Saudi Arabia	3,821	4,672	3,869	4,225	4,162
Syria	D	D	-29	-29	-30
Tunisia	149	150	65	26	22
UAE	567	674	592	737	942
Yemen	940	752	628	628	649
Total	12,185	15,950	14,801	15,904	18,349

Source: US Department of Commerce

July 10, 2002

D: Suppressed to avoid data disclosure of individual companies